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DIRECTORATE OF  
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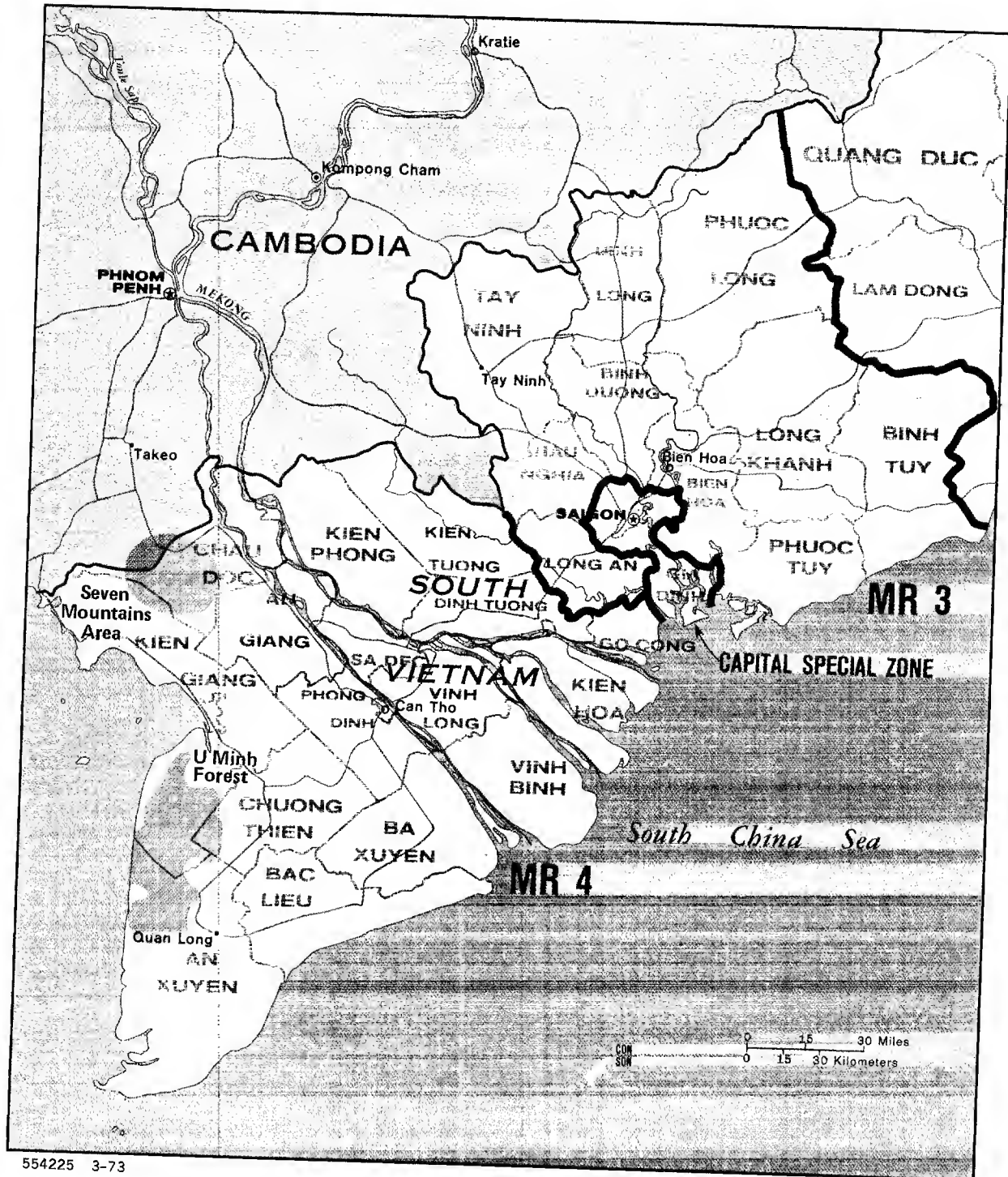
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SOUTH VIETNAM: Both sides continue to wage a low-level struggle in the heavily populated Mekong Delta region.

In recent weeks, both the government and the Communists have improved local positions through small-scale but persistent military pressure. The Communists have made most of their gains in the southernmost provinces while the government has strengthened its position in the northern delta.

In the southern part of Chuong Thien Province, the Communists have perceptibly increased their presence and influence and have gradually narrowed the area of government control, according to the US Embassy. The Communists now have unimpeded access to communications and supply routes, as well as a potential base for military and political operations in the central delta. In Chau Doc Province, the Communists have strengthened their bases in the Seven Mountains area, making access to the delta from Cambodia easier. There also has been considerable local Communist activity in Bac Lieu and Ba Xuyen provinces, but the government appears to be holding its own in these areas.

In the northern delta, South Vietnamese forces have recovered most of the territory lost at the start of the cease-fire and are now setting up outposts in some areas where there has been no recent government presence. Many of these areas still harbor sizable Communist forces, but their access to the population has become more restricted.

Communist assassinations, abductions, and sabotage have increased recently in the delta. Although a comparable upsurge in terrorism has not been observed in other areas of the country, this could portend a more general trend in the cease-fire period. Communist directives dealing with the cease-fire have suggested that terrorism will be a major part of the Viet Cong "political struggle."

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JAPAN-USSR: Prime Minister Tanaka's recent conciliatory letter to Soviet party chief Brezhnev has improved the diplomatic atmosphere, but important problems remain.

Japanese leaders have recently divorced Japanese participation in the economic development of Siberia from more intractable political problems. Thus, difficulties over conclusion of a peace treaty and the return of the Northern Territories, in Tokyo's view, no longer need cloud economic discussions. This concession apparently led Brezhnev to ease the stiffness that has characterized Moscow's attitude toward Tokyo since Tanaka's visit to Peking last year.

Tanaka's letter promised Japanese Government backing in principle for the \$1-billion Tyumen oil development and pipeline project, a guarantee for which Japanese businessmen and Soviet officials in Tokyo have been pressing hard. The Japanese insist, however, that further technical information must be supplied before they will go ahead.

Moscow's favorable reception of Tanaka's overture will boost his fading image at home, where he is criticized for failing to solve domestic problems. A Tanaka trip to Moscow is possible and this could also help.

The Soviets have seized on the Japanese initiative to reiterate their interest in better relations. Pravda gave unprecedented coverage over a four-day period to Brezhnev's meeting with the Japanese ambassador on 6 March when he delivered Tanaka's letter. The Japanese have been at pains to reassure the Soviets that establishment of relations with Peking implies no hostility toward Moscow, and they are clearly pleased to have a better balance in their relations with the major powers. They are apparently unmoved by Chinese objections to Japanese involvement in Siberia.

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INTERNATIONAL MONETARY DEVELOPMENTS: Today's meeting in Paris of the enlarged Group of Ten will probably ratify the decision of six EC nations to float jointly.

West German Chancellor Brandt told the Bundestag yesterday that his exchanges with President Nixon convinced him that Washington is ready to cooperate with Europeans. Tokyo reportedly has already indicated willingness to attempt to coordinate its float with France and West Germany by having the Japanese central bank intervene to keep the yen's appreciation above those of the franc and the mark. Most Japanese interventions to date have been to limit the yen's appreciation.

Sweden, Norway, and Austria are planning to associate with the float, but have not worked out the technical details. Austria revalued its schilling by about 2.25 percent to offset the impact of Bonn's three-percent revaluation on its trade with West Germany. The Benelux nations have decided against revaluation. The Netherlands' position is that the slight trade advantage it would gain from the German revaluation would be offset by the disadvantages in its trade with countries that recently devalued. The Hague also announced a surcharge on non-resident deposits to discourage new dollar inflows. Bern is delaying its decision whether to join the EC float until it sees how market conditions evolve. The Swiss fear that, given the strength of their currency, they would be obliged to intervene heavily to support other EC currencies and might have to revalue their currency.

The dollar weakened in light interbank trading yesterday, erasing some of the gains earlier this week.

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VENEZUELA: Leaders of President Caldera's party are considering a new move against foreign--largely US--oil companies in order to attract wider support for their presidential candidate.

Following an election strategy meeting on 13 March with President Caldera, the secretary-general of the governing Christian Democratic Party told newsmen that his party favors advancing the date when oil company facilities in the concession areas begin to revert to the state. The party's presidential candidate in next December's elections, Lorenzo Fernandez, has already spoken both privately and in public of the possibility of reversion before 1983 if this proves to be in the best interests of the country.

Both major parties have been under increasing pressure from leftist and nationalist groups to take a firm stand on issues directly related to petroleum. The opposition Democratic Action, increasingly confident that its candidate will win, has managed to resist these blandishments. Government party officials, however, are showing increasing concern because their lackluster candidate is trailing in public opinion polls and may make some new move to fuel nationalistic sentiment.

In any event, until the election is over, foreign-owned oil companies will be hesitant to commit themselves to further investments in Venezuela.

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JAPAN: The construction of several new destroyers will improve the antisubmarine warfare capabilities of the Japanese Navy.

The navy recently commissioned its first helicopter-carrying destroyer--the largest warship in the fleet. The destroyer is the first of two ordered under the third defense buildup plan which ended in 1972. The ship displaces 4,700 tons, carries three Sikorsky HSS-2 antisubmarine helicopters, and is armed with two five-inch guns, an antisubmarine rocket launcher, and two torpedo launchers. The second destroyer of this class is scheduled for completion by 1975.

Two larger destroyers of 5,200 tons, which also will carry three helicopters, have been approved under the present fourth defense plan. The last of these destroyers is not likely to be delivered until at least 1980. The navy now relies primarily on shore-based aircraft and conventional destroyers and destroyer escorts for antisubmarine operations.

The Japanese maritime force is the most powerful non-Communist navy in the Far East. With the completion of all ships presently approved, Japan's navy will include 37 destroyers, 17 destroyer escorts, 15 conventional attack submarines, and 36 coastal minesweepers. The force is organized and equipped for coastal defense of the home islands and Okinawa. It has little capability, however, for extended deep-water operations. The lack of auxiliary ships for at-sea replenishment is the most important limitation on its ability to operate outside of home waters.

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CYPRUS: General Grivas' forces have intensified terrorism and intimidation of the police in response to President Makarios' renewed pressures.

In the pre-dawn hours of 15 March, Grivas' guerrillas blew up two district police stations and were repelled from a third in the east end of the island. In coordinated actions, Grivas' groups in other parts of the island bombed the homes of seven police officers. No one was injured in either the raids or the bombings, demonstrating once again Grivas' ability to organize attention-getting but carefully modulated shows of force.

Since his re-election as President last month, Makarios has been attempting to bring about a truce with Grivas. Having failed to get any response, Makarios then sought to dramatize his own pre-eminence by celebrating a widely attended mass on 11 March in Grivas' home town. Two days later the Archbishop met with police and intelligence officials and decided to dismiss 30 policemen suspected of being Grivas supporters. More may go later. At the same time, Makarios moved to tighten security by adding at least several hundred men to the security force.

In discussing these measures with the US ambassador, Makarios implied that he would maintain pressure on Grivas in one way or another in an attempt to neutralize him. Grivas will seek to avoid a major showdown with Makarios, but he probably will stage more "mini-spectaculars" to demonstrate that he remains a significant force in Greek Cypriot affairs.

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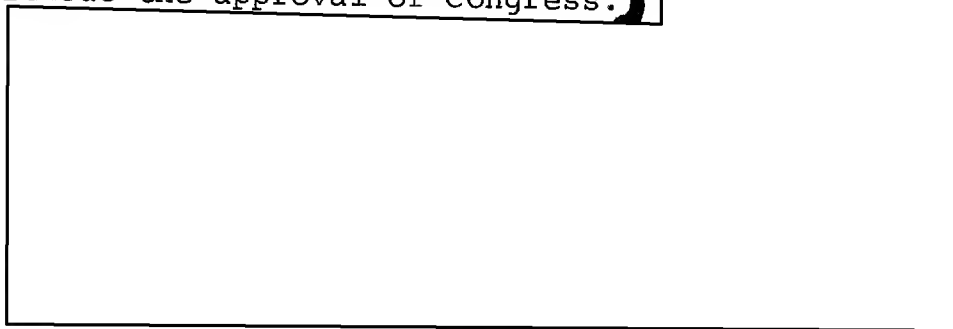
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URUGUAY: The government announced that it sold a million ounces of gold from its official holdings last year because of a pressing need to make payments on its large foreign debt.

This is one of the few violations of the two-tier gold market established in March 1968, which set an official price for gold transactions between governments and central banks, and allowed prices in private transactions to be determined by market forces. Despite US Government protests, the Uruguayan central bank reportedly realized an average of \$68 an ounce, 80 percent above the prevailing official price of gold. The gains to Uruguay were less than the difference between the market price and the official price, however, because most of the gold was already pledged as collateral for loans from European and Canadian banks above the official level. Uruguay still has gold holdings worth about \$150 million at the current official price.

On the political front, the Parliament has introduced a motion to censure President Bordaberry and his finance minister for making the gold sale without the approval of Congress.



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WEST GERMANY: The Social Democratic Party executive board has rejected Young Socialist (Juso) convention resolutions that call for radical changes in West Germany's domestic and foreign policies. The board declared on 13 March that the party leadership is not considering deletions or changes in the program that carried the Social Democrats to victory in the election last November, and it reaffirmed the party's moderate political orientation. On 12 March the secretary-general of the party, referring to the most radical of the Jusos, said that those who do not accept the Social Democrats' basic program should look for another party. The executive board's statement is a sharp break with past practice when Juso decisions were ignored or played down, and is further evidence that Chancellor Brandt and other leaders will fight at the party convention next month to stop the party's left wing from gaining further influence. [REDACTED]

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FINLAND-CEMA: The draft "cooperation" agreement that Finland and CEMA initialed in Moscow reportedly bears little resemblance to the more substantive EC agreement still pending signature in Helsinki. A joint commission is to be formed to develop multilateral cooperation between Finland and CEMA member states in the fields of economics, industry, science, and technical research. The CEMA document may be signed when the Soviet leadership visits Helsinki early next month. According to Taneli Kekkonen, the President's son and a member of the Finnish delegation that returned from Moscow on 14 March, the impression that the CEMA arrangement is an attempt to balance eventual Finnish-EC ties is "purely optical." Despite Finnish efforts to disavow a connection between the two draft agreements, the CEMA accord bolsters the credibility of Finnish neutrality and should facilitate Helsinki's signing the EC agreement this year.

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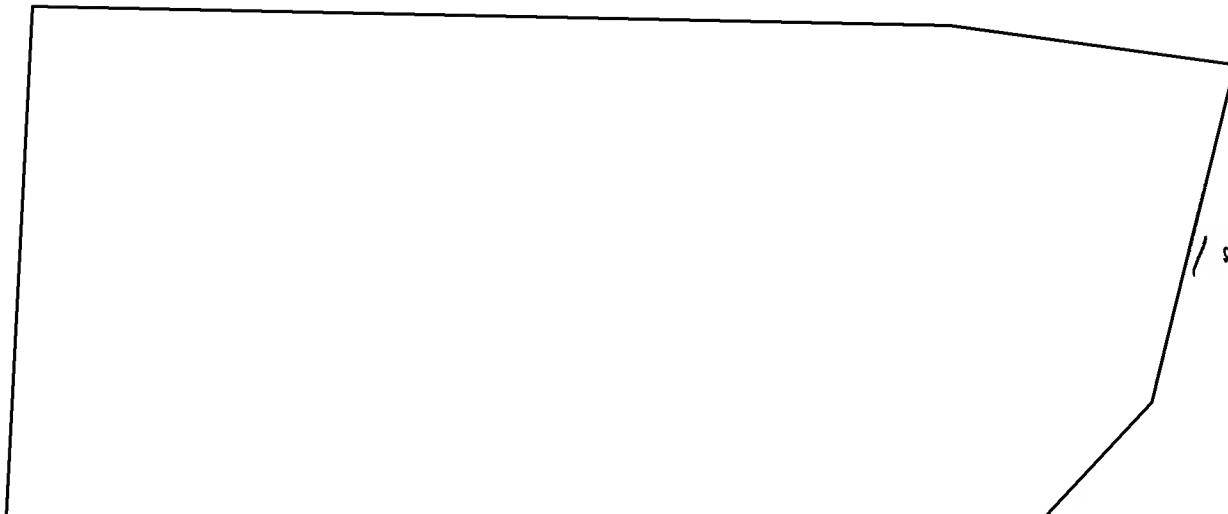
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CHINA-JAPAN: A five-member Chinese delegation is in Japan to negotiate a long-term fertilizer contract. For the past three years Tokyo has been supplying more than half of Peking's annual fertilizer imports. With world supplies becoming tighter and prices rising rapidly, China apparently wishes to ensure long-term deliveries from its major supplier. This will also aid Japanese producers in production planning. Although Peking is making a major effort to increase domestic production by importing Western technology and equipment, it will not be self-sufficient at least until 1980.

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